



REPLY TO
ATTENTION OF

**DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109**

NOV 20 2006

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Fiscal Year (FY) 2007 Annual Statement of Assurance on Management Controls

1. This memorandum provides guidance for the preparation of your FY 2007 Statement of Assurance on management controls.
2. The Federal Managers' Financial Integrity Act requires the Secretary of Defense to submit an annual Statement of Assurance to the President and the Congress. Annual statements from the heads of DoD components support this statement. The Secretary of the Army's statement is supported, in turn, by annual statements from commanders of Army commands (ACOMs), Army service component commands (ASCCs), direct reporting units (DRUs) and principals of headquarters, Department of the Army (HQDA) organizations. These annual statements are personal certifications regarding the effectiveness of management controls.
3. Your statement will include a cover memorandum, signed by you or your principal deputy, providing your assessment of reasonable assurance that management controls are in place and operating effectively. The statement is effective ***as of the date it is signed***. Tabs A and B of your statement will support your assessment of the effectiveness and efficiency of your operations, your compliance with applicable laws and regulations for the overall management control program and your administrative and operational activities. It also should provide information regarding your reported material weaknesses. Your statement must adhere to the enclosed guidance, and is due to this office May 18, 2007, for ACOMs, ASCCs, and DRUs and June 1, 2007, for principals of HQDA.
4. All statements should be addressed to the Assistant Secretary of the Army (Financial Management and Comptroller) ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109, or delivered to Room 3A322 in the Pentagon. We accept e-mail submissions (i.e., PDF or Word files) but all cover memoranda must be signed. We will accept advance copies by fax at (703) 614-3890 (DSN 224-3890); however, signed copies of the memorandum must be received by the due date.
5. My point of contact for this action is Ms. Caroline McMullen: (703) 614-7069 or caroline.mcmullen@hqda.army.mil.

Nelson M. Ford
Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosure

DISTRIBUTION:**PRINCIPAL OFFICIALS OF HEADQUARTERS, DEPARTMENT OF THE ARMY:**

Administrative Assistant to the Secretary of the Army

Assistant Secretary of the Army (ALT)

Assistant Secretary of the Army (M&RA)

The Inspector General

The Auditor General

Deputy Chief of Staff, G-1

Deputy Chief of Staff, G-2

Deputy Chief of Staff, G-3/5/7

Deputy Chief of Staff, G-4

Chief Information Officer/G-6

Deputy Chief of Staff, G-8

Assistant Chief of Staff for Installation Management

Chief of Chaplains

The Judge Advocate General

Chief, Army Reserve

Chief, National Guard Bureau

Director of the Army Staff

Provost Marshall General of the Army

Chief, U.S. Army Corps of Engineers

The Surgeon General

ARMY COMMANDS (ACOMs):

U. S. Army Forces Command (FORSCOM)

U. S. Army Training and Doctrine Command (TRADOC)

U. S. Army Materiel Command (AMC)

ARMY SERVICE COMPONENT COMMANDS (ASCC):

U. S. Army Europe (USAREUR)

U. S. Army Central (USARCEN)

U. S. Army North (USARNORTH)

U. S. Army South (USARSOUTH)

U. S. Army Pacific (USARPAC)

U. S. Army Special Operations Command (SASOC)

Military Surface Deployment and Distribution Command (SDDC)

U. S. Army Space and Missile Defense Command/U. S. Army Forces Strategic Command (SMDC/ARSTRAT)

Eighth U. S. Army

DIRECT REPORTING UNITS (DRU):

U. S. Army Network Command (NETCOM)

U. S. Army Medical Command (MEDCOM)

U. S. Army Intelligence and Security Command (IACG)

U. S. Army Criminal Investigation Command (CIDC)

U. S. Army Corps of Engineers (USACE)

U. S. Army Military District of Washington (MDW)

U. S. Army Test and Evaluation Command (ATEC)

U. S. Military Academy (USMA)

U. S. Army Reserve Command (USARC)

U. S. Army Acquisition Support Center (ACQ Spt Ctr)

U. S. Army Installation Management Command (IMCOM)

Director, Installation Management Agency

CF:
Deputy General Counsel (Ethics and Fiscal)
U.S. Army Audit Agency, ATTN: SAAG-FFG
Defense Finance and Accounting Service

GUIDELINES FOR PREPARATION OF THE FY 2007 ANNUAL STATEMENT OF ASSURANCE

SCHEDULE

Below is the schedule for development and preparation of the Secretary of the Army's FY 2007 Statement of Assurance:

February 27	Senior Level Steering Group will convene to review uncorrected material weaknesses.
May 18:	Annual statements from Army Commands (ACOMs), Army Services Component Commands (ASCCs), and Direct Reporting Units (DRUs) due to OASA (FM&C).
June 1	Annual statements from Headquarter Principals due to OASA (FM&C).
June 22:	Draft Army statement delivered to HQDA staff agencies for coordination.
July 6:	HQDA staff agency comments on draft Army statement due at OASA (FM&C).
July 18:	Senior Level Steering Group will convene to review proposed Army statement.
August 24:	Final signed Army statement delivered to the Secretary of Defense.

STRUCTURE OF THE STATEMENT

The Statement of Assurance will consist of the following sections:

- The cover memorandum
- TAB A How the Assessment was Conducted
 - TAB A-1 The Basis for Reasonable Assurance
 - TAB A-2 Other Information Required
 - TAB A-3 Management Control Program and Related Accomplishments
- TAB B Material Weaknesses
 - TAB B-1 List of Material Weaknesses
 - TAB B-2 Uncorrected Material Weaknesses
 - TAB B-3 Corrected Material Weaknesses

COVER MEMORANDUM

Signature. The head of the reporting organization or their principal deputy must sign the cover memorandum. This memorandum provides their assessment as to whether they have reasonable assurance that the organization's management controls are in place and operating effectively.

Types of Statements. This statement of assurance must take one of three forms:

- An **unqualified** statement of assurance ("I am able to provide an unqualified statement of reasonable assurance that (name of activity) internal controls meet the objectives of Federal Managers' Financial Act (FMFIA) overall programs, administrative, and operations."). Each unqualified statement must have a firm basis for that position, and this basis must be described clearly in Tab A.
- A **qualified** statement of assurance ("I am able to provide a qualified statement of reasonable assurance that internal controls meet the objective of FMFIA overall programs, administrative and operations with exception of (number) material weakness(es) described in TAB B. These material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in TAB B, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls."). The material weaknesses in management controls that preclude an unqualified statement should be cited in the cover memorandum.
- A statement of **no** assurance ("I can provide no assurance that the (name of activity) internal controls meet the objectives of FMFIA overall programs, administrative, and operations").

The Army and DoD have submitted qualified statements since FY 1993. A qualified statement is nothing more than an objective recognition that management controls need improvement. Reporting organizations should give serious consideration to submitting qualified statements where appropriate.

TAB A HOW THE ASSESSMENT WAS CONDUCTED

Purpose. The purpose of the statement of assurance is to provide an **objective** assessment of management controls and to report any material weaknesses in those management controls. In TAB A, the organization must describe how its assessment of management controls was conducted (i.e., how it reached a determination that its management controls provided reasonable assurance) and provide support for that assessment.

Reasonable Assurance. Reasonable assurance refers to a satisfactory level of management confidence that management controls are in place and operating as intended. Reasonable assurance is a management judgment that recognizes there are

acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived.

Content of TAB A. TAB A consists of the following three sections:

TAB A-1, The Basis for Reasonable Assurance. A reporting organization may base its determination of reasonable assurance on a wide variety of factors, to include:

- Establishment of sound policies and specific required actions in regulations and other directives.
- Prevention and detection measures, such as internal or external audits, inspections, investigations and quality control reviews.
- General knowledge of command operations derived from weekly staff meetings, status reports, periodic review and analysis sessions and other forms of command oversight.
- Various functional management reviews, such as: program evaluations (e.g., computer security reviews) and system reviews (e.g., financial system reviews).
- Actions taken to mitigate or eliminate risk as part of a command risk management program.
- Annual performance plans and reports.
- Management control evaluations conducted in accordance with the organizations Management Control Plan.

TAB A-2, Other Information Required. TAB A must also provide specific information on:

- Leadership Emphasis. This section summarizes leadership efforts in support of your management control process, to include leadership correspondence on the importance of effective management controls and senior leadership bodies (e.g., councils or committees) used to advise on management control issues.
- Training. This section summarizes management control training conducted. Indicate the type of training (e.g., provided by U.S. Department of Agriculture, HQDA management control staff or in-house staff) and the total number receiving each type of training.
- Execution. This section summarizes the most significant management control accomplishments within your organization, to include improvements both in administering the management control program and in enhancing the effectiveness of management controls in functional processes and programs. Be selective and ensure that these accomplishments are related directly to management controls.
- TAB A-3, Management Control Program and Related Accomplishments. This section highlights the most significant management control program and related accomplishments achieved during FY 2007 by your organization. Use this section to identify other management improvements that are not specifically part of your management control program but relate directly to the protection of government property, efficiency of your operations, conservation of resources, improvements in responsiveness to external customer needs or enforcement of laws and regulation. Using the format below, insure that each accomplishment contains both a

Description of the Issue and Accomplishment section. Describe your accomplishments in simple, concise bullet-style descriptions. Accomplishments may be extracted from information reported elsewhere in your statement of assurance report. Submit accomplishments in the following format:

Title of Accomplishment

Issue	<i>(briefly describe the problem or challenge involved)</i>
Accomplishment	<i>(indicate the control put in place)</i>
	<i>(quantify benefits derived from implementing the control.)</i>

TAB B MATERIAL WEAKNESSES

Material Weakness Criteria. Identifying and correcting deficiencies in management controls is an ongoing responsibility of commanders and managers at all levels. Whether a problem merits reporting as a material weakness is a management judgment. There are two essential criteria for a material weakness:

- It involves a deficiency in management controls (i.e., they are not in place; they are in place but are not being used; or they are in place and used but are inadequate).
- It warrants the attention of the next level of command, because that next level must take action or because it must be aware of the problem.

It is usually clear whether a problem involves a deficiency in management controls or whether the next level of command must take corrective action. Whether the next level of command should be made aware of a weakness is a more subjective judgment. The following factors should be considered in making this judgment:

- Actual or potential loss of resources (e.g., magnitude, sensitivity, frequency of loss).
- Current or probable congressional/media interest (adverse publicity).
- Unreliable information causing unsound management decisions.
- Diminished credibility or reputation of Army management.
- Violation of statutory or regulatory requirements.
- Impact on information security
- Impaired fulfillment of essential mission or provision of Government services.

Sources for Material Weaknesses. Many sources can be used to identify potential material weaknesses, to include: audit or inspection findings, criminal investigation results, management control evaluations, functional management review processes, and management's general knowledge of operational problems. Audit and inspection reports often will recommend reporting specific problems as material weaknesses. These recommendations should be given careful consideration, but the determination to report a material weakness is ultimately a management judgment.

US. Army Audit Agency Identified Problems in Weakness Reporting. Some weaknesses lack clear, concise problem descriptions or lack a comprehensive milestone plan for correcting the weakness. Each HQDA reporting organization should consider material weaknesses from its ACOMs, ASCCs, and DRUs feeder statements as input for the possible identification and inclusion in a broader Army-wide material weakness.

Content of TAB B. TAB B consists of the following three sections:

- TAB B-1, List of material weaknesses which provides separate listings for uncorrected and corrected material weaknesses. Each listing should indicate the title of the weakness and the fiscal year it was identified, beginning with the most recent weaknesses and working back.
- TAB B-2, Uncorrected material weaknesses includes separate descriptions of each uncorrected material weakness.
- TAB B-3, Corrected material weaknesses includes separate descriptions of each corrected material weakness.

Material weakness format and instruction requirements are attached.

MATERIAL WEAKNESS FORMAT

Local ID #: _____

Title and Description of Material Weakness:

Functional Category:

Senior Official in Charge:

Pace of Corrective Action:

Year Identified:

Original Target Date:

Target Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Validation Process:

Results Indicators:

Source(s) Identifying Weakness:

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

B. Planned Milestones (Fiscal Year 2007):

Date:

Milestone:

C. Planned Milestones (Beyond Fiscal Year 2007):

Date:

Milestone:

OSD or HQDA Action Required:

Point of Contact:

MATERIAL WEAKNESS FORMAT INSTRUCTIONS

Each material weakness should not exceed three pages in length.

Local ID #: Indicate your local identification number for the material weakness.

Title and Description of Material Weakness. The title should be short and concise. The description should be written in non-technical terms that would permit a member of the public to understand the management control problem, its cause, and its adverse impact.

Functional Category. Cite one of the broad DoD functional categories below:

Research, Development, Test, and Evaluation
Manufacturing, Maintenance, and Repair
Communications / Intelligence / Security
Personnel and / or Organization Management
Comptroller and / or Resource Management
Property Management
Support Services
Other (Primarily Transportation)

Procurement
Major Systems Acquisition
Contract Administration
Force Readiness
Supply Operations
Information Technology
Security Assistance

Senior Official in Charge: Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to targeted milestone projections.

Pace of Corrective Action:

Year Identified: The FY the weakness was first reported.

Original Target Date: The FY for correction when first reported.

Target Date in Last Year's Report: The FY for correction in last year's report. If this is a new weakness, enter "N / A."

Current Target Date: The current FY for correction. If this is a new weakness, enter "N / A."

Reason for Change in Date(s): Reason for change in quarter and fiscal year of "Current Target Date" from the "Target Correction Date" previously reported. If applicable, the reason for change should include a brief description of the impact (cost, operation) of any delay in correcting the weakness.

Validation Process: The effectiveness of corrective actions must be validated before a material weakness is closed (this is important especially when corrective actions focus on policy changes). Indicate the method that will be used to validate the material weakness and the date this will occur. For any Army-level material weakness, validation must be accomplished by the USAAA.

Results Indicator: Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and / or qualitative measures that determine the benefits derived or will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, state that information here.

Source(s) Identifying Weakness: List the primary source(s) that identified the material weakness (e.g., management control evaluations, external audit or inspection reports, local inspector general, or internal review findings). For audit/inspection reports, cite the report title, report number, and date.

1. **Major Milestones to Include Progress to Date:** Indicate major milestones – primary corrective actions – taken or planned to correct the material weakness. Separate milestones into three categories: (a) Completed Milestones, (b) Planned Milestones for Fiscal Year 2007, and (c) Planned Milestones Beyond Fiscal Year 2007. List only major milestones in chronological order by milestone completion date with the terminal milestone listed last. Provide the quarter and fiscal year that each major milestone is projected to be accomplished.

A. **Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
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B. **Planned Milestones (Fiscal Year 2007):**

<u>Date:</u>	<u>Milestone:</u>
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C. **Planned Milestones (Beyond Fiscal Year 2007):**

<u>Date:</u>	<u>Milestone:</u>
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OSD or HQDA Action Required: For HQDA statements: If correction of this material weakness requires action by OSD or by another HQDA staff agency, indicate the office and the action you believe it should take; include a point of contact with phone number or email address, if possible. If you are reporting the material weakness for information only, indicate "N / A."

Point of Contact: The name, office symbol, and telephone number of the individual in your organization who can respond to inquiries about this material weakness.